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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 001434

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ENRG](#) [EPET](#) [EINV](#) [BL](#)
SUBJECT: US BUSINESS IN BOLIVIA: A ROUNDTABLE OF CONCERNS

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

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Summary
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¶1. (C) On June 25, the Charge hosted a breakfast with the lead officials of nine U.S. companies operating in Bolivia that included an OSAC briefing delivered by the RSO. While it is clear that all of the company representatives are worried about the current political situation and frustrated by relations with the central government, each of the sectors has uniquely different angles on the problem and degrees of concern. Manufacturers were preoccupied by increased union radicalization, mining executives focused on tax issues and a possible creeping expropriation, and in agriculture, Archer Daniel Midland (ADM) was the only one saying that compared to other countries, the situation in Bolivia is not that bad. The overall consensus is that businesses are living "day-to-day," fearing further government intervention or intimidation. End Summary.

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Union Organizers from Argentina Raise Manufacturing Concern
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¶2. (C) Representatives from the manufacturing sector included Marcos Iberkleid of America Textiles, Eduardo Bracamonte of Gold America, and George Satt of ForestWorld. Satt lamented that several Argentine labor organizers were now active in at least seven manufacturers in El Alto. He thought that they enjoyed the tacit support of the Morales administration and were trying to radicalize the local unions. Satt views the current demands for wage increases as unreasonable. Furthermore, he believes the unions realize their demands are untenable, but were making them regardless. Iberkleid said that his factory was also being affected and the production schedule had been reduced by order of the government. No longer can the factory run 24 hours a day, seven days a week; they now are forced to close on Sundays. For the affected set of workers, this means a 30 percent drop in their salaries. Iberkleid is not directly challenging the government's decision, but has suggested to his workers that they make their concerns know. To date, the workers have not dared to approach the government.

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Mining: Taxes, Strikes, and a Cooperative Buffer

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13. (C) Gerardo Garrett of San Cristobal (Apex), Jim Duff of San Bartolome (Coeur), and Humberto Rada of Inti Raymi (Newmont) all represented the mining sector. Despite violent confrontations and a strike which paralyzed the department of Potosi over the past few weeks, taxes were the greatest concern for the mining representatives. Rada went so far as to say that he feared the government's strategy in the sector was to tax the mines to such an extent that they could later be expropriated for non-payment of back taxes. While he was concerned that the mines would have no recourse if this were to happen, the Charge explained that clauses in the bilateral investment treaty addressed "creeping expropriation," applicable in such cases. Meanwhile, San Cristobal continues to be taxed at over 80 percent, despite promises by many government officials that a 25 percent surtax (that only they pay) would be removed. Rada was also concerned that environmental regulations may be used against mines that did not cooperate with the government. He related that several months ago he was cornered by a reporter and asked his opinion about the effect of the proposed new constitution on mining. He answered that he thought it would devastate the sector -- the following week six government inspectors came to the mine to examine environmental conditions, the first such inspection in recent memory.

14. (C) Protests and strikes have a negative impact on the sector, but the representatives said that the powerful cooperative miners actually protect their operations from

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more radical government actions: the Morales administration cannot decree changes in the sector without also alienating its base of cooperative miners. Duff went on to state his opinion that while the chaos in Potosi may have made the government appear out of control, in reality the Morales administration may have wanted the protests (or, at least, did nothing to calm the situation). He suggested that Morales prefers to keep cooperative miners divided and had succeeded in this goal though the strike.

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Electricity: Next to be Nationalized?
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15. (C) The electricity sector was represented by Jose LaFuente of Corani (a subsidiary of Econergy, headquartered in Boulder, CO). Rumors have been rampant that segments of the industry would be nationalized following the June 22 autonomy vote in Tarija. Embassy sources reported that in a heated meeting over the weekend, the decision to nationalize would be pushed off for the time being. Regardless, the sector is under the gun and hesitant to make any meaningful investments. LaFuente described his initial contact with the newly elected MAS government. He said that from the start, the Morales administration has said that the sector would be nationalized and, as a result, willingness to invest has been limited. Moreover, LaFuente described how a Minister threatened to "release the government dogs" on individual companies if they did not comply with administration requests to decrease rates. As an operator in the coca growing region of the Chapare, LaFuente said that his company had enjoyed official army protection; now he fears the fox is protecting the hen house.

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Gas: A Small Operator Out of the Spotlight
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16. (C) Jorge Martignoni is the Vintage (part of Occidental Petroleum) general manager in Bolivia. Vintage operates a small gas field and produces less than one percent of Bolivia's gas. Because of its size, it has not drawn the attention of the Morales administration and, as a result, is operating smoothly with good results despite the heavy tax

burden. (Note: In previous conversations, Martignoni explained that when Vintage operations were taxed at 30 percent, the price of gas what around \$1 per BTU (or 70 cents to the company). Now with gas at around \$6 per BTU and a tax rate of 50 percent, Vintage makes \$3 dollars. End note). According to Martignoni, the government is focused on three areas. First, they need to resolve the "nationalization" of the capitalized companies. Currently the two companies that were fully nationalized (The Bolivian Logistics Company of Hydrocarbons and Transredes) have both filed for arbitration, while Chaco (Pan American Energy) and Andina (Repsol YPF) were mandated to cede 50 percent plus one of their shares to the government. Andina has signed an operating agreement with the government through November, but Chaco is still in (hostile) negotiations. Second, Martignoni said that the government continues to be desperate for additional investment in the sector and, third, they are trying to better organize the state hydrocarbon company (YPFB). While this turmoil will continue for the foreseeable future, Vintage will continue to profitably operate its small gas field.

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Agriculture: ADM Walking on the Razor's Edge
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17. (C) ADM's Val Shaffer said that for his company the situation in Bolivia was not as bad as in neighboring Argentina or a number of other nations struggling with rising food prices. While ADM has had to deal with an export ban on its principal product (cooking oil), it concluded an excellent fiscal year. After two years without adding investments, ADM plans to construct a new silo and add sunflower crushing capacity this year. Shaffer acknowledged

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however, that ADM is walking a thin line between the appeasing the Morales administration and the autonomic Santa Cruz government. ADM was the first to compromise on domestic pricing among the four major cooking oil producers during the export ban; as a result, it is enjoying a decent working relationship with the central government. ADM is being paid the tax rebates owed to it by the government (although they are still owed around \$17 million), which was contrasted by the El Alto manufacturers (America Textiles and Forestworld) who both said that these rebates for on value added exports were not being paid to their companies. While local relations are not as cordial for ADM, Shaffer thinks that the recent purchase of another of the major cooking oil producers, Gravelal, by a subsidiary of the Venezuelan state hydrocarbon company (PdVSA) has created a new villain in the eyes of the Santa Cruz leadership.

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Comment
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18. (C) While American investment in Bolivia (outside of mining) is not large, U.S. companies with operations here do represent an interesting cross-section of the economy. To date we have seen no special prejudice against U.S. firms, but Post will continue to closely monitor the situation. Vice President Garcia Linera recently detailed how, in their view, the Morales administration's statist model is generating superior results for the economy and more nationalizations are in store. On the ground bottlenecks and inflation are growing, as private business struggles to deal with incompetent government administrators. For now, buoyant international conditions are masking the government's mismanagement; indeed, Bolivian exports are up by over 50 percent in the first five months of this year due principally to rising prices. For the near future these conditions may well enable Bolivia's journey back to the 1970's failed economic policies to continue.

